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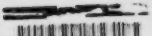

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Securities and Exchange Commission
Washington, D.C. 20549

Form 10-Q

Quarterly Report Under Section 13 or 15 (d)
of the Securities Exchange Act of 1934

A92-2260

For Quarterly Ended March 31,1992

Commission File Number 0-10832

AFP Imaging Corporation
(Exact name of registrant as specified in its charter)

New York	13-2956272
(State or other jurisdiction of incorporation or organization)	(IRS Employer ID No.)
250 Clearbrook Road, Elmsford, New York	10523
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (914) 592-6100

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15 (d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports) and (2) has been subject to such filing requirements for the past 90 days. Yes X No

The registrant had 4,755,113 shares of Common Stock outstanding as of April 30, 1992.

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PART I. Financial Information

The consolidated financial statements included herein have been prepared by AFP Imaging Corporation (the "Company"), without audit, pursuant to the rules and regulations of the Securities and Exchange Commission. While certain information and footnote disclosures normally included in financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted pursuant to such rules and regulations, the Company believes that the disclosures made herein are adequate to make the information presented not misleading. It is recommended that these consolidated financial statements be read in conjunction with the consolidated financial statements and notes thereto included in the Company's Annual Report on Form 10-K for the year ended June 30, 1991.

In the opinion of the Company, all adjustments, consisting only of normal recurring adjustments, necessary to present fairly the financial position of AFP Imaging Corporation as of March 31, 1992 and June 30, 1991, and the results of its operations for the three and nine month periods ended March 31, 1992 and 1991, and its cash flows for the nine month periods then ended, have been included.

Item 1: FINANCIAL STATEMENTS

AFP Imaging Corporation and Subsidiaries
Consolidated Balance Sheets --March 31, 1992 and June 30, 1991

Assets	March 31, 1992	June 30, 1991
Current Assets:		
Cash and cash equivalents	$277,118	$430,991
Accounts receivable, less allowance for doubtful accounts of $ 296,000 and $303,000 respectively	6,711,780	6,181,638
Inventories	11,778,043	13,725,152
Prepaid expenses and other	623,626	707,541
Total current assets	19,390,567	21,045,322
Property and Equipment, (at cost)	11,230,653	11,300,223
Less accumulated depreciation	(5,514,935)	(5,144,438)
	5,715,718	6,155,785
Intangible Assets, net of accumulated amortization	1,902,464	2,313,640
Other Assets	295,631	169,389
	$27,304,380	$29,684,136

Liabilities and Stockholders' Equity	March 31, 1992	June 30, 1991
Current Liabilities:		
Current portion of long term debt (Note 3)	$6,395,959	$8,071,081
Accounts payable	2,160,868	2,564,013
Accrued expenses	3,018,685	2,474,662
Total current liabilities	11,575,512	13,109,756
Deferred Income Taxes	184,391	184,391
Long Term Debt	2,915,320	3,737,043
Convertible Subordinated Debentures (Note 3)	4,603,000	4,603,000
Stockholders' Equity		
Convertible Preferred Stock, Series A, 1,750,000 authorized, 498,136 shares issued and outstanding at March 31, 1992 and at June 30, 1991.	1,295,159	1,295,159
Common Stock Warrants	25,314	25,314
Common Stock, $.01 par value, 15,000,000 shares authorized, 4,755,113 shares issued and outstanding at March 31, 1992 and at June 30, 1991	47,551	47,551
Paid-in capital in excess of par	4,423,743	4,423,743
Retained earnings	1,879,372	1,968,505
Foreign currency translation adjustment	155,018	89,674
	7,826,157	7,849,946
	$27,304,380	$ 29,684,136

The accompanying notes to consolidated financial statements are an integral part of these balance sheets.

AFP Imaging Corporation and Subsidiaries
Consolidated Statements of Income

	Three Months Ended March 31,		Nine Months Ended March 31,	
	1992	1991	1992	1991
Net Sales	$10,155,256	$9,441,497	$28,475,409	$27,871,520
Cost of Sales	7,057,014	6,776,567	19,938,109	20,309,020
Gross Profit	3,098,252	2,664,930	8,537,300	7,562,500
Selling, General and Administrative Expenses	1,121,642	2,114,389	6,121,753	6,672,130
Research and Development	451,061	314,701	1,221,833	1,110,814
Interest, net	318,828	495,649	1,162,555	1,528,653
	2,891,531	2,924,739	8,506,141	9,311,597
Income (Loss) before provision for taxes	206,721	(259,809)	31,159	(1,749,097)
Provision (benefit) for Income Taxes	(a) 43,826	(87,767)	(a) 120,292	(624,970)
Net Income (Loss) (Note 5)	$162,895	($172,042)	($89,133)	($1,124,127)
NET INCOME (LOSS) PER COMMON SHARE	$0.03	($0.04)	($0.02)	($0.24)
WEIGHTED AVERAGE NUMBER OF SHARES AND SHARE EQUIVALENTS OUTSTANDING	5,253,000	4,755,000	4,755,000	4,755,000
DIVIDENDS PER SHARE	None	None	None	None

(a) The tax provision relates primarily to income taxes on the earnings of the Company's German subsidiary. See Note 5 for further discussion.

The accompanying notes to consolidated financial statements are an integral part of these statements.

AFP IMAGING CORPORATION AND SUBSIDIARIES

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE NINE MONTHS ENDED MARCH 31, 1992 and 1991

	1992	1991
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net (Loss)	($89,133)	($1,124,127)
Adjustments to reconcile net (loss) to net cash used by operating activities -		
- Depreciation and amortization	894,743	1,112,985
Change in assets and liabilities		
(Increase) decrease in accounts receivable	(530,142)	2,598,224
(Increase) decrease in inventories	1,947,109	398,808
(Increase) decrease in other assets and other	95,109	35,440
Increase (decrease) in accounts payable	(403,145)	(1,689,418)
Increase (decrease) in accrued expenses	544,023	(1,111,321)
Total adjustments	2,547,697	1,344,218
Net cash provided by operating activities	2,458,654	220,091
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(115,592)	(184,317)
Net cash used by investing activities	(115,592)	(184,317)
CASH FLOW FROM FINANCING ACTIVITIES:		
Borrowing of debt	-	349,773
Repayments of debt	2,496,845	(392,146)
Net cash (used by) provided by financing activities	2,496,845	(42,373)
Net decrease in cash and cash equivalents	(153,873)	(6,599)
CASH AND CASH EQUIVALENTS, at beginning of period	430,991	410,817
CASH AND CASH EQUIVALENTS, at end of period	$277,118	$404,218

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.

AFP Imaging Corporation and Subsidiaries
Consolidated Statements of Stockholders' Equity
For the Nine Months Ended March 31, 1992 and 1991

	Convertible Preferred Stock	Common Stock Warrants	Common Stock	Paid-in Capital In Excess of Par	Retained Earnings	Translation Adjustment	Total
Balance June 30, 1990	$1,295,159	$25,314	$47,551	$4,423,743	$3,155,471	$99,037	$9,046,275
Foreign currency adjustment for nine months ended March 31, 1991	---	---	--	---	---	150,417	150,417
Net (Loss) for nine months ended March 31, 1991	--	--	---	---	(1,124,127)	---	(1,124,127)
Balance March 31, 1991	$1,295,159	$25,314	$47,551	$4,423,743	$2,031,344	$249,454	$8,072,565
Balance June 30, 1991	$1,295,159	$25,314	$47,551	$4,423,743	$1,968,505	$89,674	$7,849,946
Foreign currency adjustment for nine months ended March 31, 1992	---	---	---	---	---	65,344	65,344
Net (Loss) for nine months ended March 31, 1991	---	---	---	---	(89,133)	---	(89,133)
Balance March 31, 1992	$1,295,159	$25,314	$47,551	$4,423,743	$1,879,372	$155,018	$7,826,157

The accompanying notes to financial statements are an integral part of these statements.

AFP Imaging Corporation and Subsidiaries
Notes to Consolidated Financial Statements
March 31, 1992 and 1991

(1) General:

The accounting policies followed during the interim periods reported on are in conformity with generally accepted accounting principles and are consistent with those applied for annual periods, as described in the Company's financial statements, as of June 30, 1991, and for the year then ended, included in the Company's Annual Report on Form 10-K for the year ended June 30, 1991.

(2) Net Income Per Common Share:

Net income per common share has been computed using the adjusted weighted average number of shares and share equivalents outstanding during the periods. The weighted number of shares outstanding does not include common stock equivalents when there is a loss as their inclusion would be antidilutive.

(3) Long and Short Term Debt:

The Company's asset based secured line of credit provides up to $14.5 million in borrowings based upon certain formulas and limitations. This facility expires in September 1992. In addition, the Company has an over-advance facility of $1.5 million available through September 1992. The interest rates range from 1.5% to 2.25% over the prime rate. As interest expense is computed daily on all outstanding amounts, the Company no longer maintains any significant cash balances. Generally Accepted Accounting Principles require that the revolver and over advance facilities be classified as a current liability. The Company restructured the terms of its Subordinated Debentures whereby interest payments of $288,000 which had been accrued and expensed but not paid were paid. In addition, the interest rate on the Subordinated Debentures was reduced from 12% to 9% effective February 1, 1992. The Company signed the necessary amendment related to its bank term loans and revolvers for this restructuring. As a result of these restructurings, the Company cured its defaults under its debt arrangements and has reclassified the term loans and Subordinated Debentures to long-term liabilities as of June 30, 1991.

(4) Inventory:

The Company uses the gross margin method related to labor and overhead costs during interim periods for inventory valuation.

(5) Income Taxes:

The Company's German subsidiary has generated net income during the nine month period ended March 31, 1992, while the Company's domestic operations have generated net losses for the same period. The income tax provision presented represents foreign income taxes related to the Company's German subsidiary. No tax benefit has been provided for the current domestic losses since the Company has no availability to carry these losses back to prior years and generate income tax refunds. The losses will result in net operating loss carry forwards which will be utilized to offset future earnings for income tax purposes.

Item 2: Management's Discussion and Analysis of 1991 Financial Condition and Results of Operation

Comparison of Nine Months Fiscal 1992 Versus Nine Months Fiscal 1991:

The increase in net sales of $ 603,889 or 2% in the first nine months of fiscal 1992 as compared to fiscal 1991 is largely due to the introduction of the new medical x-ray product line and an increase in the dental x-ray product line.

Gross profit as a percent of sales increased 2.8 percentage points, due to the extensive operational cutbacks and cost reductions enacted during fiscal 1991. Raw material costs stayed relatively constant between the two periods. Selling, general and administrative costs decreased $ 550,377 or 8 % due to the steps taken by management to reduce all non-essential costs during fiscal 1992. Reductions were made in personnel, advertising and travel costs at all locations to be consistent with the sales levels for 1992. Research and development costs increased $ 111,019 or 10 % mainly due to new, ongoing development projects for graphic arts image setters. Interest expense net, decreased $ 366,098 or 24% due to a 3 1/2 point drop in the prime rate and approximately $ 215,000 less in borrowings under the revolver loan in the first nine months of fiscal 1992 versus fiscal 1991.

Third Quarter Fiscal 1992 versus Third Quarter Fiscal 1991:

The increase in net sales of $ 713,769 or 8 % is primarily due to the introduction of the new medical x-ray product line, mentioned above and increased demand for the new graphic arts processors.

Gross profit as a percent of sales increased 2.3 percentage points due to the extensive cutbacks and reductions enacted in fiscal 1992, as mentioned above. Selling, general, and administrative costs increased a minimal amount, as most of the cutbacks in FY 91 were made in the first two quarters, and the Company has maintained these lower cost levels. Research and development costs increased $ 136,360 or 43 % due to new, ongoing development projects for graphic arts image setters. Interest expense decreased $ 176,821 or 36 % due to approximately $ 3,137,000 less in borrowings in the revolver loan and a 3 point drop in the prime rate in the current quarter period.

Capital Resources and Liquidity:

The Company's working capital at March 31, 1992, as compared to June 30, 1991, decreased approximately $120,500. The Company's earnings before depreciation and amortization for the nine months ended March 31, 1992 were $ 805,810. These favorable factors, together with a sizable reduction and utilization in inventory, enabled the Company to repay $ 2,496,845 of primarily senior debt. The Company's sales have stabilized at current levels and accounts receivable collections have been excellent. The revolver loan is secured by available and eligible inventory and accounts receivable. The revolver loan was renegotiated in September 1990 for an additional two years at the existing interest rates, with an increase in its borrowing ability by $1,500,000.

The Company has restructured the terms and conditions of its Subordinated Debentures thereby eliminating the default status of its bank credit facilities. The Company is currently in accord with all its bank agreements. The interest rate on the Subordinated Debentures was decreased effective February 1, 1992, and any prior accrued interest is still due and payable. As a result, the Subordinated Debentures and bank term loans have been reclassified as long term liabilities in accordance with Generally Accepted Assumption Principles (GAAP).

The Company is dependent upon its existing bank credit facilities to finance its ongoing operations. The Company is presently negotiating to obtain financing facilities similar to those which presently exist which will extend beyond September 1992.

The Company is presently unaware of any demands, commitments or contingencies which are reasonably likely to result in a material increase or decrease in its liquidity within the foreseeable future.

The Company expects its need for working capital will continue to be financed by operations and a short term rescheduling of its payment obligations as discussed above. The Company anticipates financing future capital equipment requirements principally from internally generated funds.

Part II Other Information

Item 6: Exhibits and Reports on Form 8-K

(a) Exhibits

None.

(b) Reports on Form 8-K

None.

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto authorized.

AFP Imaging Corporation

Date: May 15, 1992

David Vozick
Chairman of the Board
Secretary, Treasurer
(Principal Financial Officer)

Date: May 15, 1992

Donald Rabinovitch
President and Director
(Principal Executive Officer)

Date: May 15, 1992

Elise Nissen
Vice President Finance

The accompanying notes to consolidated financial statements are an integral part of these consolidated statements.